

## AREAS OF RECURRING TAXPAYER NONCOMPLIANCE

### ■ Returns Processing Center, Pg. 22

### ■ Compliance Division, Pg. 24

## ■ RETURNS PROCESSING CENTER

*The primary goal of the Returns Processing Center is to see that all returns and payments are received, processed and posted to the computer system in a timely and accurate manner. As new technology evolves in the area of taxation, we must be able to work with the new technology to continue to achieve our goal of getting the returns and payments posted to the proper accounts timely and accurately. Although we receive more returns and payments electronically each year we still process over 6 million returns for 43 different tax and fee types. But even with the use of new technology we still have the following areas of recurring taxpayer noncompliance.*

### **Use of Non-Departmental Payment Coupons**

The Department provides preprinted coupon vouchers to taxpayers who are registered with the Department and have a previous history of filing coupons. Relevant tax types include: sales tax, withholding tax, estimated tax for both individuals and corporations, and various other taxes and fees. Each month the Department receives several thousand payments without coupons, maybe with handwritten information on pieces of paper, coupons from prior filing periods that have been changed to fit the periods for which the taxpayers are trying to file, or just payments with no explanation. The Department receives numerous coupons generated by tax preparation software that cannot be processed by our automated equipment, which cause them to be manually processed and slows down productivity.

### **Failure to Complete All the Required Lines/Information**

The Department receives numerous returns that are not completed by the taxpayer, which delays their processing and necessitates Department personnel having to complete the form based on the information provided, contacting the taxpayer, or returning the form to the taxpayer for additional information. These problems slow down the Department's ability to process returns quickly and efficiently.

### **Duplicate Returns**

Taxpayers file a return electronically and then file a paper copy of the return with the Department. This causes the Department to process the paper return through the data capture process and posts to the system. A suspended transaction then occurs because two returns using the same ID number are found.

### **Filing the Wrong Return**

The Department receives numerous returns each year which are on the correct forms but not for the current year, or may be for the correct year but are on the wrong forms. An example would be taxpayers' submitting IT-40EZ forms, when they do not qualify for that form because of the type of income or deductions they may have. In these cases, Department employees must determine the correct form to be used and either attempt to transfer the information to the correct form, or return the form submitted along with a copy of the correct form to the taxpayer for resubmitting.

### **Failure to Attach W-2 Forms**

The Department receives a vast number of Individual Income Tax returns without W-2 forms to verify the withholding taxes taken as credits on the returns. Failure to submit W-2 forms causes the returns to be rejected and returned to taxpayers with requests for correct documentation.

### **Failure To Attach W-2 Forms with the WH-3**

The WH-3 is a reconciliation of the W-2 forms; and both the WH-3 and all W-2 forms must be submitted together annually. The Department often receives WH-3 forms without W-2 forms attached. It also often finds cases of taxpayers changing business names during the year but continuing to file their taxes under their previous Identification Number, and then using the incorrect forms at the end of the year to submit their withholding information for the year. Although the Department provides for the filing of WH-3 and W-2 forms using magnetic media few taxpayers take advantage of this technology.

### ***Failure to Attach the Necessary Schedules***

The Department finds that often taxpayers take credits on their tax returns, but fail to include documentation or necessary schedules to substantiate the deduction or credits being taken (e.g. College Credit, Form CC-40).

### ***Failure to Comply with Enterprise Zone Deduction***

If a taxpayer lives in an Enterprise Zone and works for a qualified employer in that zone, the taxpayer may be qualified to take the deduction. The deduction is one half (1/2) of the earned income shown on form IT-40QEC, or \$7,500, whichever is less. Often the deduction is calculated incorrectly, or Form IT-40QEC, which should be provided and completed by the employer, is not attached to the taxpayer's Form IT-40.

### ***IT-9, Extension Payment Voucher***

Taxpayers file the IT-9 even though no tax is due or they file the form showing tax due but fail to include a payment.

### ***Taxpayer Filing Wrong Form***

Taxpayers who are residents from Reciprocal States often file on Indiana Form IT-40 and take a deduction of the other state's income, rather than filing the appropriate Indiana Form IT-40RNR (Reciprocal Nonresident).

### ***Penalty for Underpayment of Estimated Tax***

Taxpayers often owe penalties for underpayment of estimated taxes if they didn't have taxes withheld from their income and/or didn't pay sufficient estimated taxes throughout the year. Generally speaking, if a taxpayer owes \$400.00 or more in state and county taxes for the year that are not covered by withholding taxes, the taxpayer needs to make estimated tax payments.

### ***Failure to Calculate County Tax***

Often taxpayers fail to compute their county taxes. If, on January 1 of the tax year, taxpayers lived and/or worked in an Indiana county that has a tax, they must figure their county tax. Failure to calculate county tax due may delay processing of their returns.

### ***Improper Completion of County Boxes***

Some IT-40's are received with "00" in the county boxes when it is not applicable. An example is "00" entered in the spouse boxes for a single taxpayer. Our computer system recognizes "00" as meaning a non-reciprocal out of state county.

### ***Systems Services Delinquency Project***

The Department issues delinquency letters to those Sales Tax and Withholding Tax accounts that fail to file returns for all periods. The taxpayer receives a letter indicating

the tax type, delinquent month(s), quarter(s) or year along with the appropriate preprinted returns to be completed for those periods. This project is conducted to ensure compliance with the Department of Revenue's filing requirements and encourage proper notification of any changes that we may need to maintain accurate and current records.

### ***Fuel Tax Common Reporting Errors***

A review of previously filed special fuel and gasoline monthly tax returns has revealed the following common reporting errors. This list does not contain all reporting errors, but is representative of those most commonly found. This would include the following forms and schedules: FT-1, SF701, MF360, Schedules 5 through 10, SF900, SF401, Schedules 1A, 2A, 3A, FT501, Schedule 501A, 501B, 501C, MF600, SF801 and SFIVP.

- Return submitted with no license/account number indicated
- Return submitted with no signature of person completing/filing return
- No payment submitted with a return that indicates an amount due
- Payment submitted but no return filed
- Missing schedules
- Incomplete information provided on schedules
- Transactions reported in the wrong month. (All special fuel transactions must be reported in the month in which they occur)
- Duplication of deductions on more than one schedule
- More than one fuel type reported on same schedule
- Export schedules not filed in duplicate as required
- Dyed fuel transactions reported on schedules designated as clear fuel
- Deliveries of special fuel with an Indiana destination misreported on export schedules
- Truck deliveries misreported on Schedule 6
- Computer generated forms/schedules that do not conform to Department requirements
- Dyed fuel user not filing schedule correctly

### ***Environmental Tax Common Reporting Errors***

A review of previously-filed environmental returns has revealed the following common reporting errors. This would include the following forms and schedules: UST-1, HC-500, HW-020 and SW-100.

- Form not signed
- No Federal I.D. Number/Social Security Number
- No check with form
- No form with check
- Money sent is different from amount shown on form
- Missing schedules
- Duplicate filing

---

## **■ COMPLIANCE DIVISION**

### ***Aeronautics Section***

The Aeronautics Section mailed 4,568 aircraft registration renewals for the calendar year 2000 with 76 owners in delinquent status as of December 2000. This translates into a 98.25% renewal compliance rate. The following amounts, including penalty & interest, were collected and processed by the Aeronautics Section for the fiscal year 2000 – 2001.

Aircraft Sales/Use Tax	\$3,276,438
Aircraft Excise Tax	\$ 513,452
Aircraft Registration Fees	\$ 118,754
Airport Late Fees	\$ 550
Total	\$3,909,194

Indiana Code 6-6-6.5-2 states that any Indiana resident who owns an aircraft must register the aircraft within thirty-one (31) days from the purchase date. Any non-resident who bases an aircraft in this state for more than sixty (60) days shall register the aircraft with the Department no later than sixty (60) days after establishing a base in Indiana. During fiscal year 2001, the Aeronautics Section completed a comparison of Federal and State aircraft databases. This project resulted in identifying 600 possible non-compliant aircraft owners. Over \$1.1 million dollars, which included sales/use tax, excise tax, registration fees, plus penalty and interest, were collected as a result of this project.

### ***Corporate Dissolutions, Reinstatements Certificates of Clearance and Letters of Good Standing***

This section has received 1,354 notices of corporate dissolution. Of these, 620 corporations have been purged from Department records. The remaining 734 corporations cannot be purged because of outstanding liabilities or missing returns. Indiana Code 6-8.1-10-9 provides that any corporate officer or director becomes personally liable for all taxes, penalties, interest, and fees associated with the collection of liabilities for a period of one (1) year from the date the Department is notified of the corporation's dissolution. The corporate officers or directors become personally liable because the dissolving corporation distributed corporate assets before all liabilities were satisfied. Corporate officers or directors may be absolved of any personal liability by obtaining a Certificate of Clearance from the Department. The Certificate of Clearance certifies that all liabilities due the Department have been satisfied.

Corporations that allow their corporate status to be administratively dissolved by the Secretary of State's office for noncompliance must obtain a Reinstatement Certificate of Clearance from the Department verifying the corporation is in good standing before they can be reinstated with the Secretary of State. The Department issued 1,237 Certificates of Clearance after 344 delinquent returns were filed and \$341,330 in outstanding liabilities were paid. The Department has denied 122 requests.

Corporations in the process of obtaining financial loans or grants will request the Department to issue a Letter of Good Standing. The Department has issued 101 Letters of Good Standing and denied 22 requests.

### ***Neighborhood Assistance Program***

The total Neighborhood Assistance credits allowed in a fiscal year (July 1, to June 30) cannot exceed \$2.5 million. Donations are made to qualified Neighborhood Assistance Organizations are verified by the Indiana Department of Commerce. The Department of Revenue tracks the donations from various business entities allowing 50% of the allowable donation as a credit against gross income tax, adjusted gross income tax, or supplemental net income tax. The Department has processed 2,338 credits for the fiscal year ending June 30, 2001.

### ***Bankruptcy/Responsible Officer Section***

The Bankruptcy Section receives notification from Federal district courts of bankruptcies related to the State of Indiana. The Department is required to file proofs of claim with courts of any outstanding Indiana tax liabilities. During the fiscal year 2001, this section filed 2,752 original claims, plus 1,855 supplemental claims with the U.S.

Bankruptcy Courts for a total net assessment of \$22,647,025. Collections from previously filed claims totaled \$3,128,465. This section received 983 previously unfiled tax returns from taxpayers in bankruptcy status.

A responsible officer is an individual who is an employee, officer or member of a corporation or partnership who has the duty to remit trust taxes to the Department of Revenue. The responsible officer is personally liable under IC 6-2.5-9-3 [sales/use tax] and IC 6-3-4-8(g) [withholding] for the payment of these taxes. Trust fund taxes are comprised primarily of sales/use and withholding taxes. During the fiscal year 2001, responsible officers were assessed \$2,002,978 in delinquent trust taxes.

### ***Charity Gaming/Not for Profit***

This section is responsible for determining organizations' not for profit status and for licensing qualified not for profit organizations for bingo, festivals, raffles, door prizes, and charity game nights. The licensing of manufacturers and distributors to sell tip boards, punch boards and pull-tabs is performed by this section.

A total of \$4,309,595 in fees was collected from the following licenses issued:

#### **Type of License      Number of Licenses Issued**

Annual Bingo	919
Charity Game Night	223
Door Prize	5
Festival	291
Raffle	556
Special Bingo	<u>121</u>
Total Licenses Issued	2,115

The following license fees were collected:

Gaming License Fees	\$4,161,595
Manufacturers License	\$ 36,000
Distributors License	<u>\$ 112,000</u>
Total Fees Collected	\$4,309,595

During fiscal year 2001, the Charity Gaming Section conducted six (6) training seminars, which were held in Plymouth, Huntington, Marshall, Mitchell, Madison and Indianapolis. Approximately 235 representatives from not-for-profit organizations attended these seminars, which covered the following topics:

\*Not-for-Profit Tax Registration

\*How to Qualify to Conduct Charity Gaming in Indiana

\*New Single Event Form

\*Financial Reports for Annual Bingo & Single Events

\*Penalties & Fines Imposed for Gaming Violations

### ***Individual/Withholding/Fiduciary Tax Sections***

The Individual Income Tax Section's mission is to identify non-filers; as well as to verify the accuracy of filed returns by utilizing information from the Internal Revenue Service, various Indiana State agencies, other state taxing agencies, and anonymous informants. Our standard compliance projects and findings for fiscal year 2001 are as follows:

#### ***Federal Audits***

The Internal Revenue Service provides agreed Federal tax audit reports to the Department. If taxpayers fail to amend their Indiana individual income tax returns to report the Indiana adjustments from the Federal modifications, a tax assessment is generated. This project resulted in 3,455 taxpayers being assessed \$3,447,735.

#### ***CP 2000 Unreported Income***

The Department receives data from the Internal Revenue Service regarding taxpayers who fail to report all taxable income. This could be income derived from wages, interest, dividends, non-employee compensation. These types of income are reported on W-2's or Form 1099 Information Returns. An assessment is generated if the income was not reported on the original return, or an amended return. This project resulted in 7,970 taxpayers being assessed \$1,824,419.

#### ***Individual Desk Audits***

Individual desk examinations are performed, based on anonymous sources or submissions from other divisions within the Department. The examination may consist of verifying income reported, credits/deductions taken, or the amount of refund requested. Individual desk audit resulted in 134 assessments totaling \$83,782.

#### ***Withholding Discrepancies***

A comparison is made between taxpayers' annual payroll reconciliation forms [Form WH-3] with the state and county withholding payments [Form WH-1] made during the year. If an underpayment exists, taxpayers are assessed the difference. This project resulted in 450 taxpayers being assessed \$7,776,716.

#### ***Fiduciary Tax***

Trusts, estates, and qualified retirement plans taxed as trusts with unrelated business income are required to file form IT-41. The tax base is federal taxable income. This section processes all IT-41s filed with the Department, verifying the accuracy of the income, deductions



and credits reported on the return. Verified overpayments are refunded and any underpayments are billed. Total Fiduciary tax collected by the Department for this fiscal year totaled \$28,162,151.

## ***Strategic Section***

The Strategic Section of Compliance was created to research, develop, and implement projects designed to increase taxpayer education and voluntary compliance. This section is responsible for billing corporate taxpayers on unreported Federal modifications. In this endeavor, 494 returns were reviewed and \$2,358,474 assessed/collected.

Educational efforts continued to inform professional and service-oriented businesses of a potential use tax liability. Use tax is due when a purchase is made and there was no sales tax imposed on the transaction. This would include purchases made from suppliers or vendors outside Indiana. Examples of such purchases subject to use would include professional books or publications, computer hardware or software, office equipment, and magazine subscriptions. Letters providing information on use tax requirements were sent to 7,708 taxpayers, which resulted in the collection of \$33,387.

This section contacted 28 taxpayers who were delinquent in multiple tax areas. These taxpayers were contacted by telephone or mail and informed of missing tax returns before any assessments were issued. This project resulted in taxpayers filing returns for the missing tax periods and remitting taxes totaling \$43,273.

Much research was conducted this year on referrals received from within the Department, other state agencies, as well as revenue departments of other states. As a result of taxpayer correspondence and assessment notifications, this section collected \$198,201.

### ***Voluntary Compliance Agreements***

Taxpayers who have failed to collect/remit taxes frequently contact the Department and request to enter into a Voluntary Compliance Agreement. These taxpayers may have been unaware of Indiana's filing requirements or may have failed to file tax returns. Collections for fiscal year 2001 totaled \$2,145,788.

## ***Utility/Sales Tax Refund Section***

Indiana law exempts certain utility transactions from Indiana sales/use tax if the utilities are used in manufacturing, mining, production, refining, oil extraction, mineral extraction, irrigation, agriculture, or horticulture and the utilities are either separately metered or used pre-

dominantly for an exempt purpose. To receive this exemption, the taxpayer must complete Form ST 200, Utility Sales Tax Exemption Application. The application is utilized by the Department to determine if a taxpayer qualifies for a full or partial exemption. This section reviewed and processed 6,320 Utility Sales Tax Exemption Applications. Approximately 5,503 of these applications qualified for a 100% exemption from their respective public utility service. These applicants were primarily government agencies and qualified not-for-profit organizations.

Commercial enterprises including businesses engaged in manufacturing, farming, mining, public transportation, and sales to other public utility companies also applied for and received a 100% exemption from their respective utility service. The Department granted 518 applicants a partial exemption for utility services consumed in industrial processing, restaurant use, etc. These businesses will apply with the Department on an annual basis to obtain a partial refund of the sales/use tax paid on the respective utility service. The Department denied utility exemption to 299 applicants. These applications were denied because the applicant failed to provide all of the requested information or the applicant was ineligible.

Approximately 3,959 refund claims (Form GA-110L) were processed and approved totaling \$23,816,437. In addition \$18.3 million was assigned to other divisions for review. The Department denied \$1.37 million in refund claims due to failure to meet exemption requirements, lack of documentation or the expiration of the statute of limitations.

Consumer use tax collections, payments received from out of state companies (who either collected Indiana sales/use tax or owed Indiana use tax) totaled \$482,733. In addition, the section billed \$110,194 based on information provided from a variety of other sources. The Department, also, collected \$3,450 in delinquent registration fees.

### ***Fuel & Environmental***

This section reviews and processes Gasoline tax refunds (Form GR-4136), Special Tax refund (Form SFR-1032) and Proportional Use refunds (Form MF-6431). Approximately 6,000 refund claims for state fuel taxes were examined.